



## THE BANK OF NEW YORK MELLON

The Bank of New York – Brussels Branch

### APPENDIX

#### **COMMENTARY ON BNYM INPUT TO THE T2S USER REQUIREMENTS RESPONSE SPREADSHEET**

This note highlights and gives some more extensive commentary on some of the issues raised in the attached spreadsheet, which is the official BNYM response to the T2S User Requirements consultation.

Two issues that dominate many of the responses are the issue of harmonisation and national specificities, and the issue of certain T2S functionalities being limited to CSDs (with directly-connected CSD participants being excluded). Some commentary on these issues is given below.

T2S also raises other issues, such as the split in processing, and the resulting split in communications, between settlements and corporate actions, and the topic of the risks and operational complexity resulting from CSDs acting as investor CSDs. These other issues are not specifically covered in this note.

#### **Harmonisation and National Specificities**

A theme runs through many of the BNYM responses is that harmonisation is of key importance, and that national specificities as set out in Annexes 15, 16 and 17, and other places, are justified only if they represent best practice and are capable of generalisation to all CSDs on T2S.

It is critical to understand why harmonisation is so important.

##### *(i) Why harmonisation is important for settlement?*

In the User Requirements documents, it is frequently explained that national specificities in settlement practices can be handled by use of the Conditional Securities Delivery Functionality. This in itself is true, but this is insufficient.

The key point is that the very existence of national specificities in settlement practices (even if limited to one CSD) necessarily results in differences in transaction lifecycles, and impacts all T2S parties (CSDs and CSD participants).

Let us assume that CSD A has a specific national settlement practice for securities for which CSD A is the issuer CSD (and that other CSDs do not have this practice).

A participant in CSD B will not be subject to the practice if it settles a transaction with another participant of CSD B. However, a participant of CSD B does not necessarily know if its counterparty uses CSD A or B (as matching in T2S takes place based on the BIC of the counterparty and not on the CSD used by the counterparty). In short, the participant of CSD B will be subject to varying and unpredictable transaction lifecycles for its instructions.

An alternative solution is for the specific national settlement practice in CSD A for securities for which CSD A is the issuer CSD to be generalised across all T2S CSDs (for that specific category of securities). This would in fact mean that transactions in T2S would have different lifecycles depending on the issuer CSD of the security. This is also clearly unsatisfactory.

The inevitable conclusion is that T2S – as a single settlement system – should provide a single and harmonised transaction lifecycle for the benefit of all CSDs and of all CSD participants.

*(ii) Why harmonisation is important for corporate actions processing?*

On a single platform (T2S), there shall be the processing of cash and securities movements that are generated by many CSDs, and also very probably by a much larger number of issuer agents.

For an entity holding securities on T2S through multiple CSDs, unharmonised practices will generate considerable cost and confusion.

For an entity holding securities on T2S through a single CSD, it is that single CSD (through possibly a chain of intermediary CSDs) that will have to handle the cost, complexity and confusion.

A reduction in such cost and confusion will be a key consideration for market participants in their decision in how to interact with T2S.

There is the risk that because of an inadequate degree of harmonisation in corporate action processes T2S does not achieve its objectives in creating a unified and unsegregated securities market.

### **Limitation of T2S Functionalities to CSDs**

CSDs have a specific role on T2S, and they have at their disposal certain exclusive rights and functionalities. Such exclusive rights and functionalities are fully justified with respect to all processing relating to the core functions of a CSD.

The situation is different, however, with respect to CSD rights and functionalities relating to some additional (or value-added) services, such as securities lending, and fails and collateral management.

In some cases, such rights and functionalities are limited to CSDs, and are not fully available to directly-connected CSD participants.

This is a concern because any such artificial restriction hampers and distorts the evolution of the market.